

DEPARTMENT OF FINANCE BILL ANALYSIS

AMENDMENT DATE: June 23, 2010
POSITION: Neutral
SPONSOR: Progreso Financiero

BILL NUMBER: SB 1146
AUTHOR: D. Florez

BILL SUMMARY: Finance Lenders: Finders: Small Loans

Under existing law, the Department of Corporations (DOC) is responsible for the licensure and regulation of finance lenders and brokers.

This bill would, until January 1, 2015, establish the Pilot Program for Affordable Credit-Building Opportunities to allow small-dollar consumer loans of between \$250 and \$2,500 and underwritten by the licensee. This bill would require licensees to file an application with, and pay a fee to the DOC to participate in the Program.

FISCAL SUMMARY

The DOC indicates that the cost of the program would be offset by the fees authorized by the bill.

Although the bill has been flagged as a state mandate it would not be reimbursable by the state because violation of its provision would constitute a crime.

COMMENTS

Finance notes the following regarding this bill:

- This bill may provide an alternative for consumers to access small-dollar loans of up to \$2,500 at a potentially lower cost than might be available from payday lenders.

Analyst/Principal (0760) C. Hill	Date	Program Budget Manager Mark Hill	Date
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Department Deputy Director	Date
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Governor's Office:	By:	Date:	Position Approved _____
			Position Disapproved _____

BILL ANALYSIS	Form DF-43 (Rev 03/95 Buff)
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D. Florez

June 23, 2010

SB 1146

ANALYSIS**A. Programmatic Analysis**

This bill would, until January 1, 2015, establish the Pilot Program for Affordable Credit-Building Opportunities to allow small-dollar consumer loans of between \$250 and \$2,500 and underwritten by the licensee. This bill would require licensees to file an application with, and pay a fee to the DOC to participate in the Program.

The bill also would do the following:

- Allow terms of not less than 90 days for loans under \$500, of not less than 120 days for loans between \$500 and \$1,500, and of not less than 180 days for loans between \$1,500 and \$2,500.
- Generally limit the interest rate that participating lenders may charge borrowers to those interest rates currently specified in Financial Code sections 22303 and 22304.
- Require participating lenders to verify a borrower's income before issuing a loan, and to also verify existing debt service obligations using one of the three major credit bureaus.
- Limit the delinquency fees charged by participating lenders to the lesser of either 10 percent of the amount of the delinquent payment due, or one of the following amounts:
 - \$15, if the period of default is over 7 days.
 - \$20, if the period of default is over 14 days.

Participating lenders would be prohibited from collecting a late fee more than one in a 30-day period.

- Require participating lenders to report a borrower's payment performance to at least once of the three major credit bureaus.
- Allow participating lenders to utilize "finders" to solicit borrowers. The bill stipulates finders shall not be compensated based on the principal amount of the loans issued, instead stipulating that finders shall be reimbursed set amounts based on the number of loans originated. The DOC would be authorized to examine licensees and finders as necessary to ensure compliance with these requirements.
- Require DOC to examine participating lenders at least once every 24 months.
- Require DOC to report to the Legislature by January 1, 2014 summarizing the performance of the pilot project.

B. Fiscal Analysis

The DOC indicates that the cost of the program would be offset by the fees authorized by the bill.

Although the bill has been flagged as a state mandate it would not be reimbursable by the state because violation of its provision would constitute a crime.

BILL NUMBER

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		SO	(Fiscal Impact by Fiscal Year)							
Code/Department		LA	(Dollars in Thousands)							
Agency or Revenue		CO	PROP							Fund
Type		RV	98	FC	2010-2011	FC	2011-2012	FC	2012-2013	Code
2180/Corporations		SO	No	----- No/Minor Fiscal Impact -----						0067
<u>Fund Code</u>	<u>Title</u>									
0067	Corporations Fund, State									